SHAREHOLDER RIGHTS DIRECTIVE II ON SCHEDULE
- ARE YOU READY?

FOR INSTITUTIONAL INVESTORS
23 & 24 June 2020

The bank for a changing world
AGENDA

01 | INTRODUCTION

02 | SRDII OVERVIEW

03 | SRDII CLIENTS’ IMPACTS

04 | SRDII REPORTING REQUIREMENTS
INTRODUCTION


- To reduce the risk of fragmentation amongst Member States, the European Commission (EC) issued an implementing regulation, IR (EU) 2018/1212, requiring uniform implementation within the EU. Nevertheless, there is still a risk of inconsistency, between the national transposition of the directive (level 1 text) in each Member State and the implementing regulation (level 2 text), which needs to be closely monitored.

- The objective of this webinar is to provide a comprehensive overview of SRDII and the implementing regulation.

USEFUL LINKS

SRDII handbook
TERESA AFONSO
Product Manager, Global Product Asset Servicing &
Regulatory Solutions

**KEY ELEMENTS**

**SHAREHOLDERS RIGHTS DIRECTIVE II**

- **Engagement**
  - Strengthen shareholders’ rights
  - Facilitate the process of cross-border voting

- **Transparency**
  - Encourage the long-term engagement of institutional investors and asset managers
  - Increase transparency of proxy advisors policies

- **Oversight**
  - Give shareholders a “say on pay”
  - Bring disclosure to related party transactions

**FACILITATION OF THE INTERACTION BETWEEN COMPANIES AND THEIR SHAREHOLDERS**

- Right for companies to identify shareholders
- Transmission of information
- Facilitating the ability of shareholders to exercise their rights
- Transparency, proportionality of costs and non-discrimination

**ENHANCED TRANSPARENCY OF INSTITUTIONAL INVESTORS, ASSET MANAGERS AND PROXY ADVISORS**

- Disclosure of institutional investors’ and asset managers’ engagement policies
- Disclosure of institutional investors’ investment strategy and their arrangements with asset managers
- Transparency requirements for asset managers and proxy advisors

**APPROVAL OF REMUNERATION AND RELATED PARTY TRANSACTIONS**

- Remuneration policy
- Remuneration report
- Related party transactions
SCOPE AND TIMELINE

WHICH COMPANIES?
- SRDII applies to companies which have both their registered office in a EEA Member State and whose shares are admitted to trading on a regulated market situated or operating within a Member State.
- Companies incorporated outside a Member State with shares listed on a EU regulated market or incorporated in a Member State with shares listed on a non-regulated EU market are not in scope of SRDII.

Although SRDII refers to equity shares in general, the EC has allowed Member States to enlarge the scope of which type of securities are impacted by SRDII obligations. Until all transpositions are complete we will not have full visibility on this matter.

WHICH SHAREHOLDERS?
- SRDII applies to all shareholders, wherever located, not only to those in Europe.

WHICH REQUIREMENTS?
- SRDII establishes specific requirements in order to encourage long-term shareholder engagement: identification of shareholders, transmission of information, facilitation of exercise of shareholders’ rights, non-discrimination and proportionality of costs, transparency of institutional investors, asset managers and proxy advisors, remuneration of directors and related party transactions.

As a custodian, the main impact is around identification of shareholders, transmission of information, facilitation of exercise of shareholders’ rights, non-discrimination and proportionality of costs.

WHICH PARTICIPANTS?
- SRDII applies to all intermediaries, institutional investors, asset managers and proxy advisors, wherever located (not only to those in Europe), servicing issuers and shareholders in scope.

<table>
<thead>
<tr>
<th>JUNE 2017</th>
<th>3 SEPTEMBER 2018</th>
<th>10 JUNE 2019</th>
<th>3 SEPTEMBER 2020</th>
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<tbody>
<tr>
<td>Shareholders Rights Directive II enters into force</td>
<td>Publication of implementing acts (i.e. level 2 technical standards)</td>
<td>Deadline for Member States to bring into force the laws necessary to transpose SRDII</td>
<td>Deadline for implementation of shareholder identification, transmission of information and voting</td>
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2017 2018 2019 2020
For below requirements, the EC adopted implementing acts to prevent divergence in the local application by each Member State. Nevertheless, there is concern regarding the possible inconsistencies between the national transpositions of the directive and the implementing regulation which only includes minimum requirements. The directive also encourages industry participants to further self-regulate according to the needs of the different markets, which may reduce standardisation.

<table>
<thead>
<tr>
<th>SRDII ARTICLE</th>
<th>ISSUER REQUIREMENT</th>
<th>INTERMEDIARY REQUIREMENT</th>
<th>IMPACT ON INTERMEDIARIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>3a</td>
<td>Right to request shareholder identification</td>
<td>Receive and pass on requests to disclose information on shareholders’ identity</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td>Process shareholders’ personal data</td>
<td>Transmit shareholders’ identification</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td>Store shareholders personal data</td>
<td>Store shareholders’ identification</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td>Transmit shareholders’ identification</td>
<td>Delete information on shareholders not holding positions after 12 months</td>
<td>HIGH</td>
</tr>
<tr>
<td>3b</td>
<td>Issue standardised information to enable exercise of shareholders’ rights</td>
<td>Transmit corporate events notifications and instructions “without delay”</td>
<td>MEDIUM</td>
</tr>
<tr>
<td>3c</td>
<td>Issue voting confirmations</td>
<td>Enable shareholders to exercise their rights, such as to participate in and vote at meetings</td>
<td>MEDIUM</td>
</tr>
<tr>
<td></td>
<td>Transmit voting confirmations:</td>
<td>Confirm reception of votes</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td>Confirm recording and counting of votes</td>
<td>Disclose fees</td>
<td>HIGH</td>
</tr>
<tr>
<td>3d</td>
<td>Not applicable</td>
<td>Charging fees for services may be prohibited</td>
<td>HIGH</td>
</tr>
</tbody>
</table>
03 SRDII CLIENTS’ IMPACT
SRDII – CLIENTS’ IMPACT

KEY IMPACTS

We have launched a project plan to ensure our compliance with the directive and the implementing regulation by the live date of 3 September 2020. We are adapting our processes and service offer for corporate actions processing, general meetings and identification of shareholders to comply with the new requirements in the implementing regulation.

IDENTIFICATION OF SHAREHOLDERS

- We will manage the identification of shareholders in house and we have been adapting our systems and internal processes to comply with SRDII provisions for the identification of shareholders.

PROCESS IMPACT

- Identification of shareholders

CLIENT IMPACT

- No impact on beneficial owners.
- We have made a screen available in our internet portal (Neolink) where clients can retrieve all issuer requests we have responded to on their behalf.

TRANSMISSION OF INFORMATION

- We have been adapting our systems and internal processes for the management of corporate actions and general meetings to comply with SRDII provisions for the transmission of information.

PROCESS IMPACT

- Corporate actions and income
- General meetings

CLIENT IMPACT

- For corporate events, both the issuer and our response deadlines will be expressed in Coordinated Universal Time (UTC).
- For general meetings, where we operate in partnership with Broadridge, we have engaged with them to ensure their offer is compliant with SRDII.

FACILITATION OF SHAREHOLDER RIGHTS

- We have been adapting our systems and internal processes for the management of general meetings to comply with SRDII provisions for the facilitation of shareholder rights.

PROCESS IMPACT

- General meetings

CLIENT IMPACT

- New requirement to process votes per final beneficial owner so to have accurate vote confirmations.
- If you have not yet subscribed to our general meetings service and you wish to, please contact your client representative, who will provide all required information.
FOCUS ON SRDII TRANSPARENCY REQUIREMENTS FOR INSTITUTIONAL INVESTORS & ASSET MANAGERS
NEW TRANSPARENCY REQUIREMENTS

Key SRDII requirements

SRD II establishes a new regulatory baseline on stewardship and stewardship activities for certain asset managers and institutional investors and creates a new suite of compulsory regulatory obligations at European level.

Disclosures by institutional investors of (i) how their equity investment strategies are consistent with their liabilities and (ii) details of their asset management arrangements.

Disclosures by asset managers to institutional investors of how their investment strategy complies with the mandate agreed and contributes to medium- to long-term performance.

Publication of a shareholder engagement policy and details of shareholder engagement and voting behaviour.
SHAREHOLDER ENGAGEMENT POLICY

Disclosure of engagement policy

• SRD II requires all institutional investors and asset managers to develop and publicly disclose an engagement policy that describes how they integrate shareholder engagement into their investment strategy. This should cover topics such as how the firm monitors and conducts dialogues with investee companies, exercises voting rights, cooperates with other shareholders and manages conflicts of interest.

Annual disclosure of engagement policy implementation

• Institutional investors and asset managers also have to annually disclose how they have implemented their policy, including how they have cast votes in general meetings of investee companies. Firms must give explanations of the most “significant” votes and may exclude “insignificant” votes from this disclosure.

SRD II allows firms to choose not to comply with one or more of the above requirements, but then the firm must publicly disclose a clear and reasoned explanation for that decision (i.e. “comply or explain”).
Disclosure of investment strategy

• SRD II requires institutional investors to publicly disclose how their equity investment strategy is consistent with the profile and duration of their liabilities, with a particular focus on long-term liabilities.

Disclosure of detailed information of arrangement with asset managers

• Institutional investors are also required to disclose detailed information where an asset manager invests on their behalf (either on a discretionary client-by-client basis or through a fund) or give a clear and reasoned explanation as to why they have omitted any elements. Required details include:
  • Incentivisation of the asset manager to align with liabilities
  • Incentivisation of the asset manager to make long-term decisions and engage with investee companies
  • How performance evaluation and remuneration of the asset manager is in line with the liabilities of the institutional investor (particularly long-term liabilities)
  • Monitoring or portfolio turnover costs
  • The duration of the arrangement
TRANSPARENCY OF ASSET MANAGERS

Annual disclosure of investment strategy implementation

- Asset managers are required to annually disclose to institutional investors how their investment strategy contributes to the medium to long-term performance of the assets of the institutional investor or of the fund

Required information

- Key material medium to long-term risks associated with the investments
- Portfolio composition, turnover and turnover costs
- Use of proxy advisors for the purpose of engagement activities and their policy on securities lending and how it is applied to fulfil its engagement activities if applicable, particularly at the time of the general meeting of the investee companies
- How they make investment decisions based on evaluation of medium to long-term performance of the investee companies, including non-financial performance, and on whether and, if so, which conflicts of interests have arisen in connection with engagement activities and how the asset managers have dealt with them
Q&A
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